

The Budget – 22 April 2009

AS IT AFFECTS THE CHARITY SECTOR

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This summary covers items in the Budget of specific interest to charities and the Not for Profit sector. It is not intended to be a full review of all the general taxation aspects of the Budget. For more general Budget commentary please visit our website www.horwathcw.com/budget

It must also be remembered that almost all of these comments are subject to any changes that may be made to the draft legislation prior to the passing of the Finance Act in the Summer.

1. Introduction

This was never going to be a simple Budget for Alistair Darling given the parlous state of the world economy and the massive amount of public borrowing that had to be addressed. However, it was an opportunity to set a political agenda prior to next year's general election and, with the various changes affecting higher rate taxpayers, it managed to achieve at least some of the headlines that might have been hoped for, although it is uncertain if any effect of these changes will filter through to the charity sector. For charities generally, however, the Budget has not been described as an unqualified success.

Charities had hoped that an 'opt-out' system for Gift Aid would be introduced along with some indication as to what will happen when the transitional relief period ends. The Budget did not address these areas and the only mention was of what seems to be a now annual commitment 'to explore ideas'.

There was also hope of reform, or even complete redrafting, in respect of substantial donor rules, but this was also put on the back burner with further consultation promised here as well. There are very mixed views from the sector as to whether real change in this area can be achieved quickly.

More welcome was the announcement of a new £20 million Hardship Fund to provide grant support and the consultation with the sector on the development of a Social Investment Wholesale Bank, along with various initiatives and funding to support the unemployed.

There was no specific mention of charities at all within the Chancellor's speech, but as is now very much the norm, it was left to the Budget Report and press releases to provide the detail.

2. Supporting charities

Hardship Fund

There was widespread welcome in the sector for the announcement of a £20 million Hardship Fund for voluntary organisations delivering front line services to vulnerable people affected by the recession.

The funds will be targeted at organisations with 'resource constraints' which have arisen because of increased demand for their services.

The funding will be in the form of grants and the only doubt expressed is that at present it is not clear as to any specific terms and conditions of the funding.

Social Investment Wholesale Bank

The government plans to consult on the design and functions of a Social Investment Wholesale Bank and report back with substantive proposals. This bank would be a wholesaler of social investment finance, designed to support the third sector in the long term, increasing the supply of investment available and helping to develop the social investment market.

3. Gift Aid and tax reliefs for donors

Increase in income tax for high earners

For the year to 5 April 2010 the 20% basic rate of income tax applies to taxable income up to £37,400. The 40% higher rate applies to taxable income above £37,401.

From 5 April 2010 onwards there will be a new 50% top rate of tax for those with a taxable income above £150,000. It will be called the Additional Rate. For high earners Gift Aid will become a more valuable relief. When they make a Gift Aid payment to a charity, they will save tax at a higher rate than now where the top rate of tax is only 40%. The sector is divided as to how this will affect the level of charity giving.

From 5 April 2010 onwards personal allowances will be gradually reduced to nil for those whose 'adjusted net income' (broadly taxable income with a few alterations) is greater than £100,000.

The rate of tax payable by trusts will go up to 50% from 5 April 2010 except in respect of their dividend income where the rate will go up to 42.5%.

Remittance Basis Charge

Gift Aid relief is available to UK taxpayers who have paid enough income or Capital Gains Tax to cover the tax reclaimed by the charity. The 2009 Finance Bill will ensure that non-domiciled taxpayers who pay the £30,000 Remittance Basis Charge will be treated as having paid tax of £30,000. This change will be backdated to 6 April 2008.

Gift Aid consultation

The Budget Report states that: "The government continues to explore ideas to improve Gift Aid, and has commissioned research into the effect of redirecting higher-rate relief from donors to charities." We understand that this research will continue until September 2009, so that any legislation would be likely to have effect in the 2010 Finance Act.

The suggestion of redirecting higher rate tax relief from donors to charities is an interesting one. It could be valuable to charities particularly in cases where higher-rate taxpayers are taxed under PAYE, and do not complete a tax return themselves to claim the additional rate relief.

However, the administration of such a scheme could be problematic. It would either involve higher-rate taxpayers being obliged to complete tax returns and pay the relief over to the charity (which is unlikely to be popular in practice), or the charities would have to collect the information from the taxpayers, presumably on the Gift Aid declaration. This would add further complexity to the Gift Aid declaration form, and yet more if the charity needed to distinguish between tax relief given at 40% or the new 50% rate. HM Revenue & Customs (HMRC) would presumably then have to carry out some sort of check to ensure that charities were correctly claiming the relief. One can see difficulties in cases where a taxpayer made a Gift Aid donation that took his earnings below the higher rate band, or where he had an expectation of a certain level of income for a year which was not fulfilled.

Perhaps the most satisfactory solution would be for the taxpayer to have the option of passing the higher rate relief to the charity, with a tick-box on the form to say "I am a higher-rate taxpayer and I wish the charity to claim relief at the higher rate of [40%/50%] on my donation". This would also mean that the taxpayer was not obliged to disclose details of his financial circumstances to the charity if he did not wish to.

We understand that the Treasury has also been considering an 'opt-out' rather than an 'opt-in' system for Gift Aid. Donors would no longer have to declare that they were

taxpayers and give permission for the tax they had paid on their donations to go to charity. Instead, charities would record donors' names and addresses and send them a letter explaining that the tax would be claimed back by the charity unless they objected. However, HMRC's view is that due to people's lack of understanding of the Gift Aid system, and apathy in responding to such letters, there would be an increase in incorrect tax reclaims by charities. This idea therefore seems unlikely to proceed.

EU developments

Cross-border charitable donations in the EU

The European Court of Justice (ECJ) recently decided that a German taxpayer could get tax relief on a donation to a Portuguese charity. This means that EU governments can no longer restrict tax relief on donations to charities established only in their own countries.

The UK government now has to incorporate this decision into UK law, but no indication was given in the Budget of how this might be done. The government could extend UK tax reliefs to donations to EU resident charities, or they could restrict UK tax relief on donations to charities, whether UK resident or not. It seems unlikely that they will significantly restrict existing tax reliefs for donors. They may however require donors to non-UK charities to supply evidence that the relevant EU charity would qualify as a charity if based in the UK.

4. Tax administration

Business Payment Support Service

The Chancellor confirmed the success of the Business Payment Support Service which was announced in the Pre-Budget Report and has been operational since 24 November 2008.

This is a tax deferral scheme to help businesses with temporary cashflow difficulties. It is available to all businesses, including charities. The taxes that can be deferred are VAT, PAYE, NIC and income or corporation tax. Arrangements are made on a case by case basis, but tax can be deferred for up to six months, if instalment payments are arranged. In most cases we are told that a decision will be given very promptly.

Under the system, interest will continue to run at the normal rate for overdue tax but there will be no additional late payment surcharges, and presumably no threats to send in the bailiffs.

Penalties for late filing of returns

A wholesale reform of the legislation for paying and reclaiming taxes is currently under way. As part of this reform, legislation will be introduced in the Finance Bill 2009 to increase the penalties for late filing of tax returns and late payment of tax.

Penalties for late **filing** include:

- £100 penalty immediately after the due date for filing (whether or not the tax has been paid)
- daily penalties of £10 per day for returns that are more than three months late, running for a maximum of 90 days
- penalties of 5% of tax due for the return period for prolonged failures (over six months and again at 12 months)
- higher penalties of 70% of the tax due where a person fails to submit a return for over 12 months and has deliberately withheld information necessary for HMRC to assess the tax due (100% penalty if deliberate with concealment).

Penalties for late **payment** include:

- penalties of 5% of the amount of tax unpaid, generally one month after the payment due date (or at the filing date of the relevant return for corporation tax)
- further penalties of 5% of any amounts of tax still unpaid at six and 12 months.

However, late payment penalties will be suspended where the taxpayer agrees a 'time to pay arrangement' with HMRC.

At the moment if a charity is late with a return it will usually incur, at most, a £100 penalty as there is no tax liability. However, under the new rules, it appears that the daily rate could increase the penalty to £1,000. This is particularly difficult when charities do not have an expectation of completing a tax return annually. In our experience return requests are often missed by charities, which can lead to delays in preparing and submitting the return. It appears that in such cases penalties will increase.

Time limits reduced for underpayments and reclaims

As part of the general review of penalties and procedures, legislation was included in the 2008 Finance Act to reduce the general time limit both for payment of underpaid tax for past years, but also for reclaiming tax.

This means that the time limit for Gift Aid claims will be reduced from the current six years to four years. The legislation will apply from the appointed date, which we are told will be 1 April 2010.

Corporate transparency

A measure which will send shivers down the spine of charity finance directors is the proposal for senior accounting officers of large companies¹ to be personally accountable for the company's tax accounting system. HMRC is apparently concerned that while there is a statutory requirement for companies to make accurate tax returns, there is currently no requirement to ensure that internal accounting systems can support this obligation.

Legislation will be introduced in the 2009 Finance Bill to oblige senior accounting officers of large companies to take 'reasonable steps to establish and monitor accounting systems within their companies that are adequate for the purposes of accurate tax reporting', and in particular to:

- certify annually that the accounting systems in operation are adequate for the purposes of accurate tax reporting
- specify the nature of any inadequacies and confirm that those inadequacies have been notified to the company auditors
- notify HMRC of the identity of the senior accounting officer.

These new obligations will be supported by penalties chargeable respectively on the senior accounting officer personally and on the company for a careless or deliberate failure.

It is not clear what effect this measure is expected to have, how it will work in practice and the impact it will have on finance directors.

5. Trading subsidiaries and business taxation

Corporation tax rates

The rate of corporation tax for small companies, broadly those with taxable profits of less than £300,000, will remain at 21% for the year to 31 March 2010. After that it will increase to 22%.

The standard rate of corporation tax will remain at 28%.

¹ Defined under the Companies Act 2006 as satisfying two or more of the following criteria: turnover > £22.8 million: balance sheet total > £11.4 million: number of employees > 250.

The marginal relief fraction for profits between £300,000 and £1.5 million will remain at $\frac{7}{400}$.

Taxable profits	Year to 31 March 2010
£1 - £300,000	21%
£300,001 - £1,500,000*	29.75%
Over £1,500,000	28%
*Marginal relief rate	$\frac{7}{400}$

The above limits for taxable profits are divided by the number of active companies (not including trusts) in a group.

Where charities or trading subsidiaries pay tax, they tend to have lower profits and pay tax at the lower rate.

Worldwide debt cap

This is part of a package of measures to rationalise the tax treatment of foreign profits. The package will exempt foreign dividends from UK tax. At the moment non-charitable UK companies are taxed on foreign dividends (subject to double tax relief). The new treatment of foreign dividends should not affect charities as they should be entitled to exemption.

UK companies will be restricted in their ability to claim tax relief on intra-group interest. Essentially, companies that are members of large groups will only be able to claim an interest tax deduction to the extent that the group itself pays interest on external borrowings. Trading subsidiaries which are funded by intra-group loans may therefore find that their interest expense is no longer tax deductible, unless the parent charity pays significant amounts of interest to third parties.

The government stated that “the debt cap legislation will apply to finance expense payable in accounting periods beginning on or after 1 January 2010.”

All large charities should now consider the funding of their trading subsidiaries and whether the interest charged could be disallowable under the new provisions.

Debt write-offs between connected companies

With effect from the Budget, companies will not be taxed on the release of trade debts owed to other companies in the same group. If the companies are not connected the release will be taxed on the debtor company, but the creditor company will obtain tax relief.

This measure will help charity trading subsidiaries, which have a tendency to build up significant inter-company balances. If the parent charity or a fellow subsidiary writes off a trade debt owed to the subsidiary, the subsidiary will not be taxed. At the moment if the subsidiary had previously claimed tax relief on the transactions that went to make up a debt, which is then written off, the amount written off becomes taxable. However, the company writing off the debt does not get tax relief.

This will in particular help a charity that wishes to wind up a trading subsidiary, where the only item in the balance sheet is an amount owned to the parent or to a fellow subsidiary. This will allow the debt to be written off and the company to be wound up without incurring a tax liability.

However, charities should be careful to consider whether writing off a debt owed by a trading subsidiary is in fact non-charitable expenditure, which would cause a tax liability to arise in the charity.

Late interest payments between connected companies

At the moment interest charged by a parent charity to a trading subsidiary is only tax deductible if the subsidiary pays it within 12 months of its year end. If the interest is not paid within that period, the subsidiary gets a tax deduction in the period in which it is paid.

Because they donate all their profits to charity, trading subsidiaries are perpetually short of cash, and often find it hard to make payments of interest to the charity. This measure should therefore assist with subsidiaries' cashflow.

Capital allowances

A temporary 40% First Year Allowance will be introduced for certain plant and machinery expenditure incurred in the year to 31 March 2010. Currently a 100% deduction (the Annual Investment Allowance) is available for the first £50,000 of plant and machinery expenditure. The rest of the expenditure goes either in the main pool where it attracts a 20% annual allowance or in a few cases a special rate pool where the rate is 10%.

A special first year allowance of 40% is available for expenditure in the year to 31 March 2010 that has been allocated to the main pool and is not covered by the Annual Investment Allowance.

Enhanced capital allowances

Certain environmentally friendly technologies qualify for an enhanced rate of 100% First Year Capital Allowances. The list of qualifying technologies has been revised this year

and certain additions have been made and certain other technologies removed. A revised list is available at www.eca.gov.uk

Loss carry back

Although of limited relevance to most charities, trading companies whose accounting periods end between 24 November 2008 and 23 November 2010 may carry back losses to offset against profits for up to three years and obtain a tax refund. Losses will be carried back against later years first.

Unlimited losses may be carried back against the preceding year's taxable income. A maximum of £50,000 of losses may be carried back to the two preceding years.

6. Anti-avoidance

Substantial donors

The substantial donor rules are anti-avoidance rules that were brought in by the 2006 Finance Act. The aim of the rules is to prevent tax avoidance whereby a taxpayer (an individual or a company) gets tax relief on a donation to a charity, but the charity then provides benefits back to the donor (e.g. by entering into transactions with them on non-arm's length terms).

Essentially the rules penalise the charity for entering into particular transactions with a substantial donor. The charity becomes liable to tax on the value of the transaction. A substantial donor is a donor who makes a donation of £25,000 or more in any one tax year, or £100,000 in any period of six years. With effect from the Budget, the limit for donations over a six year period increases from £100,000 to £150,000.

The transactions penalised are:

- the provision of services by the charity or the donor
- buying, selling, exchanging or letting property by either party to the other
- the provision of financial assistance by either party
- payment of remuneration by the charity to the donor
- investing by the charity in the business of a substantial donor.

In all cases the transactions which are penalised include transactions with individuals or companies connected with the donor.

There are many problems with the application of these rules. After numerous representations by the charity sector, HMRC and the Treasury undertook a joint consultation in 2008 and came up with a number of proposed changes. The general response from the sector was that while these changes did ameliorate the application of the rules in certain areas, they did not substantively address the significant structural problems inherent in the legislation. The following further recommendations were made by the charity sector:

- the rules should be abolished and (if necessary) replaced by rules that would be easier to understand and operate, and did not penalise innocent transactions
- if the existing rules were retained, there should be a provision to exempt all transactions on arm's length terms where there was no tax avoidance motive, and the charity should only be taxed on the value of any benefit it provided to the donor
- there should be a clearance procedure so that charities could obtain certainty about whether a transaction would be penalised or not.

The Pre-Budget Report promised "a detailed response early next year" (i.e. in 2009). However, the Budget has produced only one change to the regime, an increase in the size of donations which over a six year period qualify the donor as a substantial donor and bring transactions with them into the regime.

The Budget Report, however, states that: "The Government has considered its response to the consultation on the anti-avoidance rules around substantial donors to charity. **Budget announces further informal consultation with the sector to develop new rules based around an effective anti-avoidance purpose test.** The Government aims to bring forward proposals at the 2009 Pre-Budget Report, with a view to legislating in 2010."

While the lack of immediate action is disappointing, we believe that a properly drafted anti-avoidance test should satisfactorily address the widely reported problems with the rules. We hope that eventually this will mean that charities which are not involved in tax avoidance will no longer have to worry about the substantial donor rules.

7. VAT

This year's Budget confirmed a number of measures that had been trailed by HMRC but there were no shocks from a VAT perspective.

Administration changes

With effect from 1 May 2009 the VAT registration limit will be raised from £67,000 to £68,000.

With effect from 1 January 2010 the VAT standard rate will rise from 15% to 17.5%. HMRC has introduced anti-forestalling provisions to prevent abuse arising from the change in rate.

These measures will introduce a supplementary VAT charge of 2.5% in the following circumstances:

- where the customer cannot recover VAT in full and the customer and supplier are 'connected' for tax purposes, or the supplier funds the purchase, or a VAT invoice is issued where the payment is not due for at least six months
- where a pre-payment in excess of £100,000 is made before the change of rate unless the pre-payment is in accordance with normal commercial practice in relation to such supplies.

Nevertheless there appears to be some scope for schools, charities and businesses in the exempt sectors to gain some VAT relief for goods and services prepaid in advance of the rate change.

Other recent developments

Partial exemption

With effect from 1 April 2009 four changes were announced to the standard method of partial exemption. Only one of these changes is mandatory and a separate briefing is available on the VAT page of our website.

Staff hire concession

As many charities, schools and businesses in the VAT exempt sectors will be aware this concession was withdrawn on 1 April 2009 and in many cases will add to the VAT burden of those who use temporary staff. Charities reliant on the use of temporary staff will be disappointed that this decision has not been reversed.

8. Employers and employees

The Budget contained very little of immediate importance for employers or employees. Nevertheless, matters announced in earlier Budgets and Pre-Budget Reports will take effect from the start of the 2009/10 tax year.

PAYE

The increase in the basic personal allowance from £6,035 to £6,475 a year means that the PAYE threshold will rise from £116 to £125 weekly, £503 to £540 monthly. The rise in the personal allowance and the increase of the basic rate band from £34,800 to £37,400 means that the higher rate of 40% does not now cut in until the employee's earnings are in excess of £43,875. This marks an increase of roughly 7.4% over the 2008/09 higher rate threshold of £40,835.

Personal allowances for those aged under 65 have been increased by around 7.3% for 2009/10, while those for older taxpayers have had a smaller increase of roughly 5%.

National Insurance Contributions (NICs)

All Class 1 NIC rates remain unchanged for the time being, but employer and employee rates will rise by 0.5% in April 2011.

Meanwhile, thresholds have increased. The Earnings Threshold (ET) at which contributions become payable goes up to £110 a week, £476 a month. Note that following the increase in personal allowances in September 2008, the ET is no longer in line with the PAYE threshold. Parity will not be restored until April 2011.

There is a further major increase in the Upper Earnings Limit (UEL) which achieves the government's intention of bringing the UEL into line with the threshold for 40% tax this year. Employees with earnings at or above the UEL will find themselves paying an extra £422 a year in contributions.

NICs – Upper Accrual Point (UAP)

The UAP is an additional NIC threshold which comes into effect on 6 April 2009. It falls between the ET and the UEL and so creates an additional step in the calculation of Class 1 NICs for both employees and employers. It has been introduced in connection with changes to the way the State Second Pension is calculated.

Earnings falling in the band between the UAP and the UEL will be liable to NICs at the full rate i.e. 11% for employees and 12.8% for employers. This applies to all employees including those who pay NICs at the contracted out rate (tables D and E). So from 6 April 2009 the contracted out rebate applies only as far as the UAP and not all the way to the UEL as previously.

The change also affects the way NICs have to be recorded. Forms P11 and P14 for 2009/10 will have an extra column to record earnings that fall into the band between the UAP and the UEL.

Cars

Since April 2002 the car benefit charge has been based on a percentage of the car's list price which varies between 15% and 35% depending on the car's CO₂ emissions. For 2009/10 the entry level remains at 135gms/km.

The 2008 Budget contained an advance announcement of a drop in the entry level to 130 gms/km in April 2010. This will now be followed by a further drop to 125gms/km in April 2011. The threshold for the 10% band (13% for diesel engines) remains unchanged at 120 gms/km – cars must have CO₂ emissions of 120gms or less to qualify.

From 6 April 2011, the discounted percentages will be discontinued. This currently applies to Euro IV diesel cars registered before 1 January 2006, petrol-electric hybrid cars, road fuel gas-powered cars and cars capable of running on E85 bio fuel. Also from 6 April 2011, the £80,000 cap on the list price of company cars will be scrapped – the taxable benefit will be calculated on the full list price.

Car fuel

Since April 2003, the fuel benefit charge has been calculated by applying the car benefit tax percentage to a set figure, or 'multiplier'. For 2009/10, the multiplier remains unchanged at £16,900.

Advisory mileage rates revised once more

HMRC has updated its 'advisory' petrol and diesel mileage rates for company/fleet cars and vans with effect from 1 January 2009. The previous change was in July 2008. The current rates are:

Engine size	Petrol	Diesel	LPG
1400cc or less	10p	11p	7p
1401 to 2000cc	12p	11p	9p
Over 2000cc	17p	14p	12p

National Minimum Wage

The National Minimum Wage rates applicable since 1 October 2008 are as follows: £5.73 per hour for workers aged 22 or over and £4.77 per hour for workers aged 18-21 inclusive. The rate for 16 and 17 year olds is £3.53 per hour.

Increased rates are due to take effect on 1 October 2009 but these have not been announced. Normally an announcement is made annually in February, but this year it is being delayed to 1 May 2009, apparently at the request of the Low Pay Commission.

Staff living accommodation – anti-avoidance measures

Where accommodation is leased by the employer, the benefit charge is normally based on the rent paid by the employer. Some employers have sought to reduce the taxable benefit artificially by paying a substantial lease premium initially and a much lower rent thereafter. For leases entered into or extended on or after 22 April 2009 this will no longer be effective. On leases of 10 years or less, the lease premium will be treated as part of the rent for benefit in kind purposes and spread over the lifetime of the lease.

Further details of rate and reliefs can be found in our tax facts 2009/10 card.

9. Helping people

Supporting the unemployed

The government is introducing additional support for the long term unemployed. The proposal will offer guaranteed support to 18-24 year olds who have been unemployed for 12 months in an attempt to prevent them becoming detached from the labour market. As part of this support the government will provide funding to Local Authorities and voluntary sector partners to create 100,000 new jobs in a socially useful activity and a further 50,000 jobs in areas of significant unemployment throughout the country. It is anticipated that 10% of these jobs will be 'green' jobs. As part of the guarantee there will be new training courses and Community Work Placements.

The Budget also announced 'CareFirst', which will offer 50,000 traineeships for young people in the care sector. The scheme will support providers in recruiting young people to this growing sector, whilst providing opportunities for those in need of work. A subsidy will be paid to providers who offer sustained employment and training to young people who have been out of work for 12 months.

Jobcentre Plus funding

The Budget announced that an additional £1.7 billion will be set aside for the Department for Work and Pensions over the next two years to ensure Jobcentre Plus and Flexible New Deal capacity is in place to respond to rising unemployment. This support should help people who become unemployed to find work again quickly.

Child poverty

The Budget repeats the government's commitment to focus on eradicating child poverty and to support all households through the economic downturn. It has announced further targeted support for vulnerable households including:

- increasing the child element of the Child Tax Credit by an additional £20 a year above indexation from April 2010
- taking further steps to help low-income households gain access to the support they are entitled to, such as the extra tax credits available to people suffering a fall in income.

Child Trust Fund – disabled children

The government will contribute £100 every year to the Child Trust Fund accounts of all disabled children. Severely disabled children will receive £200. This is in recognition that disabled children in adulthood are likely to have higher financial needs than others.

Social Fund

The Social Fund has been established to provide 'Budgeting and Crisis' loans to people of working age which is of interest to certain sections of the sector as they seek to help such individuals too.

Awards are rather 'last resort' and are dependent on there being no other help available when a crisis or a disaster happens and are the only way to stop damage or serious risk to an individual or their family.

The Budget announced an additional £125 million in 2009/10 and a further £145 million in 2010/11 to meet expected increased demand caused by the recession.

Pensioner savers

Measures are being introduced to support lower income pensioners. The following will be introduced from Autumn 2009:

- the assessment of entitlement to Pension Credit, Housing Benefit and Council Tax Benefit will not take into account the first £10,000 of savings held by the pensioner. This will increase the income by £4 per week of the estimated 540,000 Pension Credit claimants who have savings above the current de-minimis limit of £6,000
- those individuals in receipt of the Pension Credit who may have overpaid tax on their savings income in the previous six years will be contacted as part of a 'taxback' campaign. This campaign will encourage people to claim tax back on savings income and, where possible, register to avoid overpaying tax in future. It is estimated that individuals could receive, on average, approximately £200.

In addition, the annual investment limit for Individual Savings Accounts (ISAs) will be increased from £7,200 to £10,200 for people aged 50 and over with effect from

6 October 2009. This will apply to all savers from 6 April 2010. However, only half of this increased limit may be invested in cash.

Support for pensioners

The Budget announced that households including someone aged 80 or over would receive an additional payment of £100 and those including someone aged 60 or over would receive £50 which would be paid in conjunction with the Winter Fuel Payment in 2009/2010.

10. Building a low-carbon economy

The Budget provides over £1.4 billion of additional targeted financial support to boost Britain's low-carbon sectors, building on policies and measures which are already in place to encourage significant low-carbon investment in the period to 2011. The government considers that these measures will place the UK at the forefront of a world-wide low-carbon recovery. To strengthen the long-term policy framework and to boost investor confidence in low-carbon technologies, the Budget sets the world's first carbon budgets, as required by the new Climate Change Act. These budgets set a legally binding 34% reduction in emissions by 2020 (compared to 1990). This new target puts the UK on track to achieve its long-term goal of cutting emissions by 80% by 2050. The government published "Building a low-carbon economy: implementing the Climate Change Act" alongside the Budget and this sets out in more detail the process of setting the carbon budgets and monitoring progress against them.

Funding of £375 million has been pledged to support energy and resource efficiency in businesses, public buildings and households over the next two years – measures which the government predicts will support employment and save over £60 million in energy bills each year. In addition, the Budget includes £405 million of funding (£250 million of which will come from the Strategic Investment Fund also announced in the Budget) to support low-carbon industries and advanced 'green' manufacturing.

The government also announced an uplift in support for offshore wind investments; an extension of the climate change levy exemption for indirect sales of electricity from combined heat and power beyond 2013 to 2023; and opportunities for UK renewable and energy projects to benefit from additional new capital from the European Investment Bank.

As previously announced, main fuel duty rose by 1.84 pence per litre on 1 April 2009 so the main fuel duty rate is now 54.19 pence per litre. The Budget announced that fuel duty will increase by 2 pence a litre on 1 September 2009, and by a further 1 penny per litre in real terms each year from 2010 to 2013. The changes affecting emissions

thresholds and calculation of taxable benefits, in relation to company cars, are also in line with the government's drive to incentivise more environmentally friendly behaviour. Landfill tax remains a crucial element of waste management policy in the UK. The Budget supports the continued increase in the standard rate of landfill tax in order to encourage use of, and investment in, alternative treatment options and recycling. The standard rate of landfill tax will increase by £8 per tonne on 1 April each year from 2011 to 2013.

In relation to water supplies, the government predicts that up to 26,000 businesses will benefit from reforms which enable them to switch supplier, resulting in downward pressure in water prices, increased service levels and better use of water.

11. Improving public services

The government's short-term focus is on supporting employment and jobs through the recession. The Budget sets assumptions for spending growth from 2011 to 2014 which still allow for continued investment in public services. The Budget assumes current spending growth at an average of 0.7% in real terms, with public sector net investment moving to 1.25% of GDP by 2013/14. The Budget raises the 2007 Comprehensive Spending Review value for money target from £30 billion to £35 billion, whilst pledging to maintain in full the allocations planned for key front-line services including schools and health services.

The government emphasised its aim to continue to improve and invest in public services whilst delivering savings identified by the Operational Efficiency Programme (OEP) and the Public Value Programme (PVP) over the next Spending Review period. The OEP published its final report on 21 April 2009 and the government has accepted the recommendations contained within it. Projected annual efficiency savings of £15 billion will take time to achieve – around £6 billion should be delivered as part of the government's £35 billion value for money target in 2010/2011 with the additional £9 billion being achieved by 2013/14. Savings have been highlighted in five key areas: back office operations and IT; procurement; asset management and sales; property efficiency and rationalisation; and local incentives to encourage professionals to better collaborate and innovate.

12. Homeowners, homebuyers and the housing market

The Budget included support for homeowners and homebuyers, including a £600 million funding package of measures to build more homes through unlocking sites currently sitting as dormant. The government estimates that this should deliver up to

10,000 new homes in England over the next two years. The package includes £100 million for Local Authorities to build new social housing at higher energy efficiency standards. It also includes an extension to the shared equity scheme Homebuy Direct and additional social housing investment.

The Local Housing Allowance (LHA) is being reformed to make it more equitable and to promote work incentives. From April 2010, households will no longer be able to keep any of the surplus if the LHA they receive is higher than their rent. For those already receiving LHA, this reduction will not apply until the anniversary of their claim.

Stamp Duty Land Tax (SDLT)

There is also an extension of the Stamp Duty Land Tax holiday for all residential properties costing up to £175,000 until midnight on 31 December 2009. Around 60% of purchases are currently exempt from paying stamp duty as a result of the holiday, which was originally due to expire on 3 September 2009.

A new system of Registered Providers of Social Housing (RPSH) will be introduced. These RPSHs may include with profits providers. People who purchase properties from an RPSH under a shared ownership scheme will benefit from a favourable SDLT treatment. Property purchases by an RPSH will benefit from SDLT relief.

These reliefs were previously available only to Not for Profit Registered Social Landlords. Simplified SDLT rules will also be introduced for Rent to HomeBuy Schemes.

13. Conclusion

Overall the Budget had some cheer for charities in terms of the recognition of an increased burden being placed on them as the economic problems made things tougher for individuals from all walks of life.

There was recognition of a need to be aware that charities are different from 'for profit' organisations and that was shown in some of the more innovative areas such as the Social Investment Wholesale Bank and the care needed to preserve tax reliefs on charity funds subject to FSA regulation.

However, some of the general changes for company tax almost certainly have an unintended negative effect for charities and the lack of real progress on Gift Aid and substantial donor rules disappointed the sector for a second year.

Measures announced in the Budget to support those particularly disadvantaged by the current economic downturn are considered, by some, to be significantly overshadowed by the longer-term legacy of debt facing future generations. There's still, therefore,

much to do to protect and encourage charities to play their role in an increasingly needy society.

Forthcoming events

Our Not for Profit unit organises a comprehensive seminar programme for charities. Forthcoming events include:

<p>Monday 11 May 2009 London</p> <p>Rhiannon Cutler T: 020 7842 7209 E: rhiannon.cutler@horwath.co.uk</p>	<p>Charities tax update seminar Time: 1.00pm – 4.30pm (beginning with a buffet lunch) Cost: Free Venue: Horwath Clark Whitehill LLP, St Bride's House, 10 Salisbury Square, London EC4Y 8EH</p> <p>Half-day seminar providing an update on VAT, employment tax and general tax issues including developments arising from the 2009 Chancellor's Budget.</p>
<p>Wednesday 13 May 2009 Thames Valley</p> <p>Michelle Hewitt T: 0118 959 7222 E: michelle.hewitt@horwath.co.uk</p>	<p>Charities tax update seminar Time: 10.00am – 2.00pm (including a buffet lunch) Cost: Free Venue: Horwath Clark Whitehill LLP, Aquis House, 49-51 Blagrove Street, Reading, RG1 1PL</p> <p>Half-day seminar providing an update on VAT, employment tax and general tax issues including developments arising from the 2009 Chancellor's Budget.</p>
<p>Monday 29 June 2009 London</p> <p>Rhiannon Cutler T: 020 7842 7209 E: rhiannon.cutler@horwath.co.uk</p>	<p>From backroom to boardroom: maximising the role of internal audit in charities Time: 9.30am – 2.00pm (including a buffet lunch) Cost: Free Venue: Horwath Clark Whitehill LLP, St Bride's House, 10 Salisbury Square, London EC4Y 8EH</p> <p>Practical half-day seminar exploring the changing role of charity internal audit as it seeks to achieve a strategically focused approach which adds maximum value to the charity.</p>

For any further information, please contact your existing contact partner within Horwath Clark Whitehill, or Pesh Framjee, head of our Not for Profit unit; David Daly, head of our Employers' Advisory Group; Nigel Glover, head of Taxation in the Not for Profit unit; Arthur Blackburn, head of VAT.

Horwath Clark Whitehill LLP
St Bride's House
10 Salisbury Square
London
EC4Y 8EH

Tel: 020 7842 7100
Fax: 020 7583 1720

nonprofits@horwath.co.uk

www.horwathcw.com

Further details are available at www.horwathcw.com